1999 Country Reports on Economic Policy and Trade Practices
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NIGERIA

Key Economic Indicators

(Billions of U.S. Dollars unless otherwise indicated)

	1997	1998	1999 1/
Income, Production, and Employment:			
Nominal GDP 2/	50.1	52.0	N/A
Real GDP Growth (pct) 3/	3.2	2.4	N/A
GDP by Sector (pct):			
Agriculture	31.5	32.3	N/A
Manufacturing	6.3	6.1	N/A
Services	9.7	9.6	N/A
Per Capita GDP (US$)	250	250	240
Labor Force (millions)	43.0	40.0	N/A
Unemployment Rate (pct)	2.6	3.9	N/A
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	15.0	15.6	N/A
Consumer Price Inflation	8.5	10.0	8.0
Exchange Rate (Naira/US$ annual average)			
Official	22	82	95
Parallel	55	85	101
Balance of Payments and Trade:			
Total Exports FOB 4/	15.2	9.0	N/A
Exports to U.S. 5/	6.3	4.2	N/A
Total Imports FOB	10.3	9.9	N/A
Imports from U.S. 5/	0.8	0.8	N/A
Trade Balance	4.9	-2.0	N/A
Trade Balance with U.S. 5/	5.5	3.4	N/A
Current Account Deficit/GDP (pct)	1.2	-3.5	N/A
External Public Debt	27.1	28.7	N/A
Debt Service Payments/GDP (pct)	1.8	1.4	N/A
Fiscal Deficit/GDP (pct)	0.2	4.7	N/A
Gold and Foreign Exchange Reserves	7.6	7.1	N/A
Aid from U.S. (US$ millions)	N/A	N/A	N/A

Aid from All Other Sources	N/A	N/A	N/A

1/ 1999 figures, except exchange rates, are all estimates based on available monthly data in November.

2/ GDP at factor cost. Conversion to U.S. dollars done with official exchange rate of 82 naira to the dollar for 1998/99.

3/ Percentage changes calculated in local currency.

4/ Merchandise trade.

5/ Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 1999 figures are estimates based on data available through November 1999.

1. General Policy Framework

Nigeria is Africa's most populous nation and the United States' fifth largest oil supplier. It offers investors a low-cost labor pool, abundant natural resources, and one of the largest domestic markets in sub-Saharan Africa. On the other hand, inadequate infrastructure, corruption, and inconsistent regulations mean that considerable time, money and managerial effort are needed for a firm to begin operation and earn profits in Nigeria. Nigeria's basic infrastructure is extensive but inadequate for a population of over 100 million. Roads and bridges are crumbling, telephone service is erratic, and there are recurring shortages of water and electricity. Social unrest in some areas, widespread unemployment, a stagnant economy depressed by over-reliance on oil, the lack of effective due process, and serious fraud and violent crime problems complicate business in Nigeria.

After a period of moderate fiscal austerity in the late 1980s, the Nigerian government ran budget deficits of up to 12 percent of GDP beginning in 1990. The deficit decreased to seven percent in 1994 and, by postponing government spending (including for debt service), in 1995 shrank to negligible proportions. In 1996, the budget had a surplus of 1.6 percent of GDP. For the majority of 1997, the budget ran a reported surplus. The deficit reduction and ensuing surplus came about primarily through austerity -- e.g., foregoing government projects and infrastructure maintenance -- as well as stronger-than-expected oil revenue. Recommendations by international financial institutions include reducing large government fuel price subsidies (the official price of gasoline is currently about 20 cents per liter), shelving a number of government projects which are of doubtful economic value, and reducing leakage from government income due to corruption.

In previous years, monetary policy had been driven by the need to accommodate the government's budget deficit and a desire to reduce the inflationary impact of the budget deficit on the economy. Deficits at the federal level had been financed primarily by borrowing from the Central Bank of Nigeria (CBN), which held 85.1 percent of the government's domestic debt at the end of 1997. Since the Central Bank monetizes much of the deficit, budgetary shortfalls have a direct impact on the money supply and on price levels, which had risen rapidly for several years but have since slowed. In 1996, the government also began releasing money from an extra-budgetary account called the Petroleum Trust Fund (PTF) for infrastructure and other projects. President Obasanjo has scrapped the fund and constituted a winding up committee to look into the activities of the PTF.

In 1999, Nigeria has continued the policy of "guided deregulation" and privatization instituted in the 1995 budget. The former head of state, General Sani Abacha, had abandoned the 1986 structural adjustment program reforms and instituted tight government control over key economic variables. In response to the economic downturn caused by those measures, Abacha's 1995 budget abandoned the tightly regulated economic policies enacted in 1994. Under the new policy, the Nigerian government reopened the Autonomous Foreign Exchange Market (AFEM), loosened controls on foreign investment and reduced tariffs and bans on some imports. The 1999 budget continued the trend of fiscal austerity and the slow deregulation of the economy. On the demise of General Abacha, General Abdulsalami Abubakar, also reiterated the government's intention to privatize major parastatals, including telecommunications and electricity (NITEL and NEPA respectively.) The 1998 budget promised privatization with 40 percent equity for the government, 20 percent equity for Nigerian citizens, and unrestricted sale of the remaining 40 percent. Invitations to invest were to be made to specific investors with relevant expertise. The 1998 budget also targeted the reorganization of the electricity generating parastatal (NEPA.) In 1999, the government repealed and amended eleven decrees that inhibited competition or conferred monopoly powers on public enterprises in the petroleum, telecommunications, power and mineral sectors. However, the promised privatization exercise has not occurred and its present prospects are unclear. The Obasanjo government has declared its conditional support for eventual privatization and promised a transparent privatization program after evaluating and rehabilitating the parastatals' assets.

In November 1999, the Obasanjo government released a Year 2000 budget of 500 billion Naira (USD 5 billion.) The budget was predicated on an oil price of $18 per barrel as against the $16.5 used in the 1999 budget. The education sector got the highest allocation of 40.3 billion Naira. Next in allocation is the Defense Ministry with an allocation of 34.1 billion Naira. Nigeria's external debt servicing is retained at $1.5 billion and external debt stood at $28.54 billion as at September 30, 1999. External debt arrears currently stand at $18.86 billion, while the debt service commitment for the year 2000 is expected to be $1.98 billion.

2. Exchange Rate Policy

In 1999, the autonomous foreign exchange market (AFEM) was fully deregulated. Dual exchange rates were scrapped and only AFEM rate prevails. Companies can now hold domiciliary accounts in private banks, with unfettered use of the funds. Foreign investors may bring capital into the country without Finance Ministry approval, and may service foreign loans and remit dividends. Bureau de change offices are functioning and transactions in the bureau de change offices have been increased to $10,000 per transaction. In addition, oil companies are allowed to sell foreign exchange directly to interested banks and private organizations. The Central Bank has continued to intervene at the weekly AFEM.

3. Structural Policies

As stated in the December 1986 circular "Industrial Policy of Nigeria," the Nigerian government maintains a system of incentives to foster the development of particular industries, to encourage firms to locate in economically disadvantaged areas, to promote research and development in Nigeria, and to favor the use of domestic labor and raw materials. The Industrial Development (Income Tax Relief) Act of 1971 provides incentives to "pioneer" industries deemed beneficial to Nigeria's economic development. Companies given "pioneer" status may enjoy a non-renewable tax holiday of five years, or seven years if the pioneer industry is located in an economically disadvantaged area.

In 1995, Nigeria promulgated the Nigerian Investment Promotion Commission Decree to replace the Enterprises Promotion Act. This decree liberalized the foreign investment regime, allowing 100 percent foreign ownership of firms outside the petroleum sector. Investment in the petroleum sector is still limited to the existing joint venture agreement or production-sharing contracts with the Nigerian government, though there has been discussion of the Nigerian government selling off some small parts of its joint venture equity. A foreign enterprise may now buy shares of any Nigerian firm except those on the "negative list": production of firearms, ammunition and narcotics, military and paramilitary apparel. The Investment Promotion Decree provides for the creation of an Investment Promotion Commission that will register companies for foreigners after incorporation under the Companies and Allied Matters Decree of 1990. The decree also abolishes the expatriate quota system (except in the oil sector) and prohibits any nationalization or expropriation of a foreign enterprise by the Nigerian government except for such cases determined to be in the national interest.

Nigeria has partially implemented the 1995 money laundering decree, which introduced bank reporting procedures designed to inhibit this practice. There is also a decree against advance-fee fraud (called 419 fraud after the relevant section of the Nigerian criminal code.) However, as of 1999, there has been only limited success in reducing financial fraud despite improving law enforcement actions against fraud perpetrators. The broad scope of business fraud has brought international notoriety to Nigeria and constitutes a serious disincentive to exporters.

4. Debt Management Policies

Nigeria's foreign debt ballooned from $13 billion in 1981 to $24 billion in 1986, when sharply lower oil revenues and continued high import levels escalated balance of payments deficits. Debt service obligations including payment of arrears, are projected to be over $8 billion annually for the next several years. However, according to the 1998 Central Bank of Nigeria's Annual Report, Nigeria's total external debt stock at the end of 1998 amounted to $28.774 billion, compared with $27.09 in 1997. The exact debt figure with multilateral financial institutions is still in dispute. The 1999 budget allowed only $2 billion for foreign debt payments, thus ensuring continued build-up of arrears.

In January 1992, in an effort to reduce its external debt, the Nigerian government concluded an agreement with the London club that gave commercial banks a menu of options from which to choose in reducing Nigeria's commercial debt. The menu included debt buy backs (currently at 45 cents to the dollar), new money bonds, and collateralized par bonds. As a result of the agreement, Nigeria was able to reduce its external debt by $3.9 billion since 1992, but the accumulation of arrears on other debt (especially Paris Club debt), which currently represent 70 percent of total debt stock, has kept external debt levels high.

From 1986 to early 1992, on the basis of a comprehensive structural adjustment program, Nigeria reached three standby agreements with the IMF. The last one lapsed in 1992. Discussions with the IMF since then have shown some progress, as evidenced by the 1996 decapping of interest rates and removal of the mandatory sectoral credit allocations for banks. In 1999 Nigeria and the IMF resolved most issues standing in the way of a new standby arrangement. Nigeria's inadequate servicing of Paris Club debt remains a principal obstacle.

Nigeria's most recent rescheduling agreement with the Paris Club expired at the same time as its standby agreement with the IMF, and debt repayment obligations on Paris Club debt have continued to grow. (Nigeria has kept up to date on its multilateral and London Club debt.) In 1992 Nigeria made payments of $2.7 billion against interest and principal payment obligations of $5 billion. However, faced with similar obligations in the following years, external debt service payments were only budgeted at $1.6 billion for 1993, $1.8 billion for 1994, and $2 billion yearly from 1995 to 1998. In 1997, actual debt service payments were $503.5 million (or 25.2 percent) lower than the $2 billion budgeted. Although discussions with the IMF and World Bank continued on a medium term economic program, and Nigeria is making some progress at meeting their criteria, no new rescheduling agreement will be reached until an IMF program is in place.

5. Significant Barriers to U.S. exports

Nigeria abolished all export licensing requirements and cut its list of banned imports in 1986. However, as of November 1999, the importation of approximately 13 items is still banned. These bans were initially implemented to restore Nigeria's agricultural sector and to conserve foreign exchange. Although widespread smuggling compromises the bans, reduced availability of grains has raised prices for both banned commodities and locally produced substitutes**.** The government discontinued fertilizer subsidies for farmers in 1997, but reintroduced them in 1999. Widespread fertilizer shortages persist.

In 1995, Nigeria announced a new tariff structure for the next five years. Revisions aimed to narrow the range of custom duties, increase rate coverage in line with WTO provisions, and decrease import prohibitions. In the 1999 budget, Nigeria's 1998 revised higher tariffs were reduced, but excise duties eliminated in 1998 were restored for certain goods. Excise duties of 40 percent were restored for cigarettes, cigars, tobacco, and spirits. Other commodity duty rates are: rice, 50 percent; day-old chicks and parent stock, 5 percent; sparkling wines, wine coolers, and champagne, 100 percent; fruits and fruit juices, reduced from 75 to 55 percent; jute, 10 percent; cotton, 60 percent; fertilizers, 5 percent; textile fabrics 65 percent; and garments, 75 percent. For 1999, the 25 percent import duty rebate that was granted importers in late 1997 was abolished. Poultry and eggs, beer and stout, barley and malt, and mineral and similar waters, removed from the prohibited import list in 1998, never qualified for the rebate. However, duty rates for live, chilled or frozen poultry and eggs were slashed from 150 to 55 percent to reduce smuggling for these products and the consequent loss of significant duty revenue.

Other import restrictions apply to aircraft and oceangoing vessels. A government authorized inspection agent must inspect all imported aircraft and ocean-going vessels. In addition, performance bonds and offshore guarantees must be arranged before either down payments or the Ministry of Finance authorizes subsequent payments.

In 1996, to reduce congestion and corruption in Nigerian ports and following a reported shortfall in customs receipts, the Nigerian government changed the procedures by which goods enter or leave the country. All unaccompanied imports and exports regardless of value require pre-shipment inspection (PSI). Imports must be accompanied by an import duty report (IDR.) The Nigerian government will confiscate goods arriving without an IDR. The PSI was abandoned temporarily in early 1999 in favor of destination inspection, but the new scheme was fraught with problems and was soon shelved for the PSI again. In addition, all goods are assessed a one-percent surcharge to cover the cost of inspection. The Obasanjo Administration has made some progress on its pledge to practice open and competitive contracting. Anti-corruption is an energetic and central plank of the new government's policy. Foreign companies incorporated in Nigeria receive national treatment. Currently, tenders are published in newspapers for prospective contractors. Approximately five percent of all government procurement contracts are awarded to U.S. companies.

6. Export Subsidy Policies

In 1976, the government established the Nigerian Export Promotion Council (NEPC) to promote non-oil exports from Nigeria. The Council administers incentive programs, including a duty drawback program, the export development fund, tax relief and capital assets depreciation allowances, and a foreign currency retention program. The duty drawback or manufacturing in-bond program is designed to allow the duty free importation of raw materials to produce goods for export, contingent on the issuance of a bank guarantee. The performance bond is discharged upon evidence of exportation and repatriation of foreign exchange. Though meant to promote industry and exportation, these schemes have been burdened by inefficient administration, confusion, and corruption, causing great difficulty and, in some cases, losses to those manufacturers and exporters who opted to use them.

The NEPC also administers the export expansion grant program**,** a fund that provides grants to exporters of manufactured and semi-manufactured products. Grants are awarded on the basis of the value of goods exported, and the only requirement for participation is that the export proceeds be repatriated to Nigeria. Though the grant amounts are small, ranging from two to five percent of total export value, they may constitute subsidies as defined by the WTO and raise questions about compliance with WTO obligations. In the 1999 budget, the government announced that the incentive schemes will be replaced by a non-cash incentive scheme termed "negotiable duty credit certificate" (NDCS), under which exporters' claims are credited against future imports. This measure will save the government from making annual budgetary allocations to the scheme and is in conformity with the WTO.

7. Protection of U.S. Intellectual Property

Nigeria is a signatory to the Universal Copyright Convention and the Berne Convention. In 1993, Nigeria became a member of the World Intellectual Property Organization (WIPO), thereby becoming party to most of the major international agreements on intellectual property rights. Cases involving infringement of non-Nigerian copyrights have been successfully prosecuted in Nigeria, but enforcement of existing laws remains weak, particularly in the patent and trademark areas. Recently, Nigeria's active participation in international conventions has yielded positive results. Law enforcement agents occasionally carry out raids on suspected sites for production and sale of pirated tapes, videos, computer software and books. Piracy is widespread, but prosecution under the copyright law is slow. However, since the TRIPS (Trade Related Intellectual Property Rights) agreement was signed under the Uruguay round in 1993, the Nigerian Copyright Council has intensified efforts to combat piracy by organizing workshops for law enforcement agents on copyright issues.

The Patents and Design Decree of 1970 governs the registration of patents, and the Standards Organization of Nigeria is responsible for issuing patents, trademarks, and copyrights. Once conferred, a patent conveys an exclusive right to make, import, sell, or use the products or apply the process. The Trademarks Act of 1965 governs the registration of trademarks. A trademark conveys the exclusive right to use the registered mark for a particular good or class of goods.

The Copyright Decree of 1988, based on WIPO standards and U.S. copyright law, criminalizes counterfeiting, exporting, importing, reproducing, exhibiting, performing, or selling any work without the permission of the copyright owner. Progress on enforcing the 1988 law is slow. The expense and time necessary to pursue a copyright infringement case discourage prosecution of such cases.

Few companies have sought trademark or patent protection in Nigeria because it is generally perceived as ineffective. Losses from piracy are substantial, although the exact cost is difficult to estimate. Most recordings sold in Nigeria are pirated, and the video industry is based on the sale and rental of pirated tapes. Satellite signal piracy is also common. Violation of patents on pharmaceuticals is a problem.

8. Worker Rights

a. The Right of Association: Nigerian workers may join unions with the exception of members of the armed forces, police force, or government employees of the following departments and services: customs, immigration, prisons, currency printing and minting, central bank and telecommunications. A worker engaged in an essential service is required under penalty of law to provide his employer 15 days' advance notice of his intention to cease work. Essential service workers include federal and state civilian employees in the armed services, and public employees engaged in banking, telecommunications, postal services, transportation and ports, public health, fire prevention, and the utilities sector. Employees working in an export processing zone may not join a union for a period of ten years from the start-up of the enterprise.

Under the law, a worker under a collective bargaining agreement may not participate in a strike unless his representative has complied with the requirements of the Trade Disputes Act, which include provisions for mandatory mediation and for referring the labor dispute to the government. The Act allows the government in its discretion to refer the matter to a labor conciliator, arbitration panel, board of inquiry, or the National Industrial Court. The Act also forbids any employer from granting a general wage increase to its workers without prior government approval. In practice, however, the Act does not appear to be effectively enforced as strikes, including in the public sector, are widespread, and private sector wage increases are not submitted to the government for prior approval.

Nigeria has signed and ratified the International Labor Organization's (ILO) convention on freedom of association, but Nigerian law authorizes only a single central labor body, the Nigeria Labor Congress (NLC). Nigerian labor law controls the admission of a union to the NLC, and requires any union to be formally registered before commencing operations. Registration is authorized only where the Registrar of Trade Unions determines that it is expedient in that no other existing union is sufficiently representative of the interests of those workers seeking to be registered.

b. The Right to Organize and Bargain Collectively: Nigerian labor laws permit the right to organize and bargain collectively**.** Collective bargaining is common in many sectors of the economy. Nigerian law protects workers from retaliation by employers (i.e. lockouts) for labor activity through an independent arm of the judiciary, the Nigerian Industrial Court. Trade unionists have complained, however, that the judicial system's slow handling of labor cases constitutes a denial of redress. The government retains broad authority over labor matters, and often intervenes in disputes it feels challenge its key political or economic objectives. However, the era of government appointed "sole administrators" of unions is now over, and the labor movement is increasingly active and vocal on issues seen to attest the plight of the common worker, such as deregulation, privatization, and the government's failure to advance its poverty alleviation program.

c. Prohibition of Forced or Compulsory Labor: Section 34 of the 1999 Constitution, and the 1974 Labor Decree, prohibit forced labor. Nigeria has also ratified the ILO convention prohibiting forced labor. However, there are occasional reports of instances of forced labor, typically involving domestic servants. The government has limited resources to detect and prevent violations of the forced labor prohibition.

d. Minimum Age for Employment of Children: Nigeria's 1974 labor decree prohibits employment of children under 15 years of age in commerce and industry and restricts other child labor to home-based agricultural or domestic work. The law further stipulates that no person under the age of 16 may be employed for more than eight hours per day. The decree allows the apprenticeship of youths under specific conditions. Primary education is compulsory in Nigeria, though rarely enforced. Actual enrollment is declining due to the continuing deterioration of public schools. Increasing poverty and the need to supplement meager family incomes have forced also many children into the employment market, which is unable to absorb their labor due to high levels of unemployment. The use children as beggars, hawkers, or elsewhere in the informal sector is widespread in urban areas.

e. Acceptable Conditions of Work: Nigeria's 1974 labor decree established a 40-hour workweek, prescribed 2 to 4 weeks of annual leave, set a minimum wage, and stipulated that workers are to be paid extra for hours worked over the legal limit. The decree states that workers who work on Sundays and legal holidays must be paid a full day's pay in addition to their normal wages. There is no law prohibiting excessive compulsory overtime. In 1998, the federal government raised for all federal employees the minimum monthly wage (salary and allowances) to N5, 280.00 (USD 60) from N450 (USD 5.00). The government later reversed the decision and reduced the minimum wage to N3,500.00 (USD 35) for federal workers and N3000.00 (USD 30) for state workers. However, many states are unable, or unwilling to pay the new minimum wage. Widespread reports of empty state treasuries inherited by the new civilian government threaten their ability to pay the new salary. Despite this, the Obasanjo government is considering plans to further increase the minimum wage. The 1974 decree contains general health and safety provisions. Employers must compensate injured workers and dependent survivors of those killed in industrial accidents but enforcement of these laws by the ministry of labor is largely ineffective.

f. Rights in Sectors with U.S. Investment: worker rights in petroleum, chemicals and related products, primary and fabricated metals, machinery, electric and electronic equipment, transportation equipment, and other manufacturing sectors are not significantly different from those in other major sectors of the economy.

Extent of U.S. Investment in Selected Industries -- U.S. Direct Investment Position Abroad on an Historical Cost Basis **--** 1998

(Millions of U.S. Dollars)

Category		Amount
Petroleum		1,696
Total Manufacturing		56
Food & Kindred Products	(1)	
Chemicals & Allied Products	20	
Primary & Fabricated Metals	-1	
Industrial Machinery and Equipment	0	
Electric & Electronic Equipment	0	
Transportation Equipment	(1)	
Other Manufacturing	0	
Wholesale Trade		1
Banking		(1)
Finance/Insurance/Real Estate		(1)
Services		0
Other Industries		4
TOTAL ALL INDUSTRIES		1,925

(1) Suppressed to avoid disclosing data of individual companies.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.